

BLUFF SERVICE AREA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
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FOR THE YEAR ENDED DECEMBER 31, 2005

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ACCOUNTANTS' COMPILATION REPORT

Board of Trustees
Bluff Service Area
P.O. Box 310
Bluff, Utah 84512-0310

We have compiled the accompanying financial statements of Bluff Service Area (a component unit of San Juan County) for the year ended December 31, 2005, and the related statement of revenues, expenses and changes in net assets for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The Management's Discussion and Analysis, as listed in the financial section of the table of contents, is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

SMUIN, RICH & MARSING



Price, Utah

June 16, 2006

**BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Our discussion and analysis of Bluff Service Area financial performance provides an overview of the Service Area's financial activities for the fiscal year ended December 31, 2005. All of the financial activity results from "business-type" activities.

FINANCIAL HIGHLIGHTS

- ❖ Total Revenues from business activities increased to \$90,597 in 2005 from \$ 83,021 in 2004, an increase of 9.12% in business revenue. (The increase in revenue is largely due to an increase of water services and sales.)
- ❖ Total business expenses increased to \$152,208 in 2005 up from \$128,450 in 2004, an increase of 18.5%. (The increase in expenditures is related to several line item expenses, those of more significance are legal and professional fees and salaries and benefits. Legal and professional fees increase is due to one-time expenditures, which have been funded with grant funds.)
- ❖ Non-operating revenues and expense for the district were as follows:
 - a. Interest earned in 2005 totaled \$3,432 as compared to \$1,172 in 2004. The increase in earnings is due to higher interest rates and higher average cash balances.
 - b. Interest expense in 2005 totaled \$2,683 as compared to \$2,395 in 2004.
 - c. Grants and contributions in 2005 totaled \$59,181 as compared to \$77,914 in 2004. The Service Area anticipated the decrease, because grant funds and other contributions have not been as available as in previous years.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The financial reports; Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets, and Statement of Cash Flows, comprise pages 9 - 14. Governmental accounting practices that are standard and acceptable have been used and followed in preparation of these reports. The purpose of the financial reports is to identify Revenues and Expenses resulting from business activities. The net income or (loss) from operations, adjusted for depreciation, identifies the need for further analysis of contracts and programs with their related expenses. Certain key financial ratios taken from the Statement of Net Assets help identify financial strength and liquidity. Since the Service Area is operated as an enterprise fund, there are no fund statements presented because all operations of the Service Area are reported using the accrual method of accounting.

REPORTING THE SERVICE AREA'S BUSINESS OPERATIONS

Our analysis of the Service Area as a whole begins on page 9. The key financial reports provide the accounting from which schedules in this report have been created. The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Fund Net Assets summarize the Service Area's business operations for the year and provide a basis for assessing financial strengths and weaknesses. From these reports, trends are monitored and budgets are prepared for future periods. These reports are prepared using the accrual accounting method, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or payment made.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets, the Service Area shows all of the activities in one fund.

- ❖ **Business-type activities** – The Service Area charges businesses and individual customers for sales of water. Charges for these services are based on actual costs and reimbursement rates that have been established to try and cover the costs of operations. The Service Area also relies on rental income, property taxes and other miscellaneous income to help ensure the continual operation of the Service Area. These funds have aided in purchasing equipment, making necessary improvements, and stabilizing the costs of services to those within the Service Area.

REPORTING THE SERVICE AREA'S SIGNIFICANT FUND

The Service Area has only one fund, which accounts for the activity of the Service Area. The entity-wide financial statements, which begin on page 9, provide detailed information about the operations of the Service Area as a whole. The Service Area's only fund is operated as an enterprise fund. Enterprise funds are reported using an accrual accounting method, which records expenses when they are incurred and records revenues when they are earned. The Service Area does not have any governmental type funds.

THE SERVICE AREA AS A TRUSTEE

The Service Area does not hold any funds or property in a trustee capacity.

THE SERVICE AREA'S KEY FINANCIAL REPORTS

NET ASSET REPORT

	BUSINESS- TYPE ACTIVITIES 2004	BUSINESS- TYPE ACTIVITIES 2005
ASSETS		
Current and other assets	\$ 199,573	\$ 242,972
Capital assets (net)	<u>1,597,538</u>	<u>1,540,676</u>
Total assets	<u>\$ 1,797,111</u>	<u>\$ 1,783,648</u>
LIABILITIES		
Current liabilities	\$ 20,733	\$ 19,845
Long-term liabilities	<u>66,795</u>	<u>55,901</u>
Total liabilities	<u>\$ 87,528</u>	<u>\$ 75,746</u>
NET ASSETS		
Invested in Capital Assets, net of debt	\$ 1,514,479	\$ 1,473,422
Unrestricted	<u>195,104</u>	<u>234,480</u>
Total net assets	<u><u>\$ 1,709,583</u></u>	<u><u>\$ 1,707,902</u></u>

Net Assets total of the Service Area are \$1,707,902. *Unrestricted* net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – are \$234,480. These net assets are used to finance the continuing operations of providing services to the culinary water facilities.

A key financial ratio - the Current Ratio - is calculated by dividing current assets by current liabilities. This ratio is an indicator of liquidity and ability to pay current operational bills. The ratio for the year ending December 31, 2005 is 12.24 compared to 9.63 for the year ending December 31, 2004. The District's ratio indicates a strong liquidity position.

CHANGES IN NET ASSETS

	BUSINESS- TYPE ACTIVITIES 2004	BUSINESS- TYPE ACTIVITIES 2005
REVENUES		
Program Revenues:		
Charges for services	\$ 57,299	\$ 66,997
Taxes and rental income	24,498	18,713
Miscellaneous	1,224	4,887
General Revenues:		
Grants and contributions	77,914	59,181
Interest income - not restricted	1,172	3,432
Total revenues	<u>\$ 162,107</u>	<u>\$ 153,210</u>
EXPENSES		
Program Expense:		
Salaries and benefits	\$ 11,402	\$ 17,255
Professional services	12,876	28,460
Materials and supplies	3,744	2,904
Utilities and telephone	10,315	14,756
Insurance	7,466	7,812
Depreciation	60,406	61,292
Repairs and maintenance	5,062	10,035
Dues and water testing fees	1,072	200
Mosquito abatement	10,848	4,914
Recreation programs	458	1,200
Interest	2,395	2,683
Other	4,801	3,380
Total expenses	<u>\$ 130,845</u>	<u>\$ 154,891</u>
Change in net assets	<u>\$ 31,262</u>	<u>\$ (1,681)</u>
Net assets - beginning	\$ 1,678,321	\$ 1,709,583
Net assets - ending	<u>1,709,583</u>	<u>1,707,902</u>
Change in net assets	<u>\$ 31,262</u>	<u>\$ (1,681)</u>

The Service Area's decrease in net assets is due to the increase in several expenditure line item amounts and the reduction of grant revenue.

The Service Area is striving each year to provide sufficient revenue to cover the operating costs of the Service Area. The ability to continue to operate efficiently and provide the necessary services for the Service Area continues to be the main goal and focus of the Service Area. The Service Area realizes that fluctuations will occur from year to year and billing practices can only generate the revenue that should be billed. We are continuing to monitor the funds that are needed to support the activities of the Service Area and realize that sufficient revenues need to be received to ensure that our goals and objectives have an adequate revenue stream that will allow for our future plans.

CASH SOURCES AND USES

Beginning cash balance as of January 1, 2005	\$ 182,260
Change in net assets:	\$ (1,681)
Depreciation (source of cash)	61,292
Accounts receivable decrease (source of cash)	84
Fixed asset additions increase (use of cash)	(4,431)
Accounts payable decrease (use of cash)	(3,527)
Payroll liabilities increase (source of cash)	50
Deferred revenue increase (source of cash)	7,500
Principal payment on debt (use of cash)	(15,804)
Total change in net assets	\$ 43,483
Ending cash balance as of December 31, 2005	\$ 225,743

Use of funds is controlled and authorized by the Service Area's Administrative Control Board. The Administrative Control Board relies heavily on key personnel that are responsible to oversee the day-to-day operations. The Service Area Manager is crucial to the supervising and monitoring of these operations. The Board reviews the monthly financial information, compares year to date expenses to budget and makes necessary suggestions and/or corrections. The Administrative Control Board approves all major capital expenditures. The Board approves an annual operational budget and forwards it to San Juan County. They also submit copies of the budget to the State Auditor as required by Utah State law.

BUSINESS ACTIVITIES AND PURPOSES

Revenues for the Service Area are generated, by charging businesses and individuals, who use the water system. The Service Area also relies on Tax revenue, rent and miscellaneous income to cover shortages in operating revenues and also for equipment purchases. The Service Area provides services to a variety of customers and has estimated, each year, the amount of water consumption and the capacity of the facility. These estimates allow the Service Area to plan for growth and potential changes or alterations that will be needed in the system. The objective and purpose of the Service Area is to provide water facilities for those who reside within the Service Area, at a reasonable cost. As the need for water continues to grow, the Service Area will continue to review the capacity of the water system and make necessary adjustments to ensure that sufficient water is available for future use.

DEBT MANAGEMENT

As of December 31, 2005, the Service Area had \$67,254 in revenue bonds and notes payable outstanding. The original debts totaled \$258,300 and were accepted by the Board at various times for the purpose of cost of acquisition, construction, furnishing and equipping the water facility and establishing property to house the business operations. More detailed information about the Service Area's long-term liabilities is presented in note 5 on page 22 of this report.

BUDGETARY HIGHLIGHTS

The 2005 budget was adopted for the current year on December 1, 2004. Since the Service Area operates as an enterprise fund, it is only required to comply with the budget on an entity wide basis. The original budget submitted to the Utah State Auditors office was \$146,039. After the compilation adjustments, the actual expenditures amounted to \$154,891. The budget was over spent by \$8,852.

CAPITAL ASSETS

As of December 31, 2005, the Service Area had net capital assets of \$1,540,676. The increase in the capital asset purchases of \$4,431 during 2005 was for new office equipment. Budgets have been created that account for the purchase of the capital assets and Board approval is needed for all major capital expenditures. The following table shows the balance of net capital assets at December 31, 2005.

**Capital Assets at Year-end
(Net of Depreciation)
2005**

	Business-Type Activities	
	2004	2005
Land	\$ 39,300	\$ 39,300
Buildings/building improvements	473,047	458,076
Improvements other than buildings	1,073,388	1,036,315
Equipment	11,803	6,985
Net capital assets	<u>\$ 1,597,538</u>	<u>\$ 1,540,676</u>

This year's major additions included:

Office equipment	\$4,431
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The District's fiscal year 2006 capital budget will expend additional funds for equipment on an as needed basis and well expenditure improvements.

ECONOMIC FORECAST AND FUTURE BUDGET

The Administrative Control Board is still relying on Property tax collection, rental income, grants and other funds to balance the current year (2006) budget.

The Service Area's next year budget will be substantially different in total income and expenses. What is comprised in the current service area, has been divided into two separate entities as of January 1, 2006. Bluff Service Area will continue with their operations and another entity, Bluff Water Works, will record their transactions as a separate entity and report to the State of Utah as a separate entity. The Administrative Control Board will continue to operate the Service Area based on information made available to the Board from internal resources (workers and Board members) and external sources (trained and educated professionals.) We will continue to have planning meetings to implement the desired results.

The Service Area has engaged a contractor to develop a plan for the sewer system. When the plan is completed, we will be using the plan to go to the State of Utah for grants and/or loans to aid in the development of the plan. A sewer system is necessary for the Bluff area and this will be our main focus for the next few years.

CONTACTING THE SERVICE AREA'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of Bluff Service Area finances and to show the Service Area's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager at P.O. Box 310, Bluff, Utah, 84512.

BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005

BUSINESS-TYPE ACTIVITY
ENTERPRISE FUND

WATER SYSTEM

ASSETS

Current Assets:

Cash and cash equivalents	\$ 225,743
Accounts receivable	8,059
Inventory	5,000
Prepaid Expenses	4,170

Total current assets	\$ 242,972
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Noncurrent Assets:

Capital Assets:

Land	\$ 39,300
Buildings/Building improvements	628,590
Water System/improvements	1,431,103
Equipment	23,279
Less: accumulated depreciation	(581,596)

Total noncurrent assets	\$ 1,540,676
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Total assets	\$ 1,783,648
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"See Accountants' Compilation Report."

EXHIBIT A
(Continued)

BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005

BUSINESS-TYPE ACTIVITY
ENTERPRISE FUND

WATER SYSTEM

LIABILITIES AND NET ASSETS

Current Liabilities:

Deferred revenue	\$ 7,500
Payroll taxes payable	992
Current portion long-term debt	11,353

Total current liabilities	<u>\$ 19,845</u>
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Noncurrent Liabilities:

Bonds/loans payable	<u>\$ 55,901</u>
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Total noncurrent liabilities	<u>\$ 55,901</u>
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Total liabilities	<u>\$ 75,746</u>
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Net Assets:

Investment in capital assets, net of related debt	\$ 1,473,422
Unrestricted	234,480

Total net assets	<u>\$ 1,707,902</u>
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Total liabilities and net assets	<u><u>\$ 1,783,648</u></u>
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"See Accountants' Compilation Report."

BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	BUSINESS-TYPE ACTIVITY ENTERPRISE FUND
	<u>WATER SYSTEM</u>
Operating Revenues:	
Taxes	\$ 7,818
Charges for services	66,997
Rental	10,895
Miscellaneous revenue	4,887
	<hr/>
Total operating revenue	\$ 90,597
	<hr/>
Operating Expenses:	
Salaries and benefits	\$ 17,255
Professional services	28,460
Office supplies	1,210
Utilities and telephone	14,756
Operating supplies	1,694
Insurance	7,812
Depreciation	61,292
Election expense	368
Advertising	45
Travel	1,497
Repairs and maintenance	10,035
Rent	448
Mosquito Abatement	4,914
Recreation Programs	1,200
Dues and water testing fees	200
Miscellaneous	1,022
	<hr/>
Total operating expenses	\$ 152,208
	<hr/>
Operating Income/(Loss)	\$ (61,611)
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"See Accountants' Compilation Report."

BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	BUSINESS-TYPE ACTIVITY
	ENTERPRISE FUND
	<u>WATER SYSTEM</u>
Non-operating Revenues (Expenses):	
Interest income	\$ 3,432
Grants and contributions	59,181
Interest expense	<u>(2,683)</u>
Total non-operating revenues (expenses)	<u>\$ 59,930</u>
Change in net assets	\$ (1,681)
Total net assets, January 1, 2005	<u>1,709,583</u>
Total net assets, December 31, 2005	<u><u>\$ 1,707,902</u></u>

"See Accountants' Compilation Report."

BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

Cash flows from operating activities:

Cash received from customers	\$ 77,976
Cash payments to suppliers for goods and services	(77,188)
Cash payments to employees for services	(17,205)
Taxes	15,318
Miscellaneous revenue	4,887
	<hr/>

Net cash provided (used) by operating activities \$ 3,788

Cash flows from capital and related financing activities:

Acquisition of capital assets	\$ (4,431)
Capital grants and contributions	59,181
Principal paid on debt	(15,804)
Interest paid on debt	(2,683)
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Net cash provided (used) by capital and
related financing activities 36,263

Cash flows from investing activities:

Interest on investments received	\$ 3,432
	<hr/>

Net cash provided by investing activities

3,432

Net increase (decrease) in cash and cash equivalents \$ 43,483

Cash and cash equivalents at beginning of year, January 1

182,260

Cash and cash equivalents at end of year, December 31

\$ 225,743

"See Accountants' Compilation Report."

BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING
ACTIVITIES:

Operating income (loss)		\$ (61,611)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	\$ 61,292	
Change in assets and liabilities:		
Decrease in accounts receivable	84	
Increase in accrued liabilities	50	
Increase in deferred revenue	7,500	
Decrease in accounts payable	(3,527)	
Total adjustments		<u>65,399</u>
Net cash provided by operating activities		<u>\$ 3,788</u>

"See Accountants' Compilation Report."

BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Bluff Service Area, (formerly San Juan County Service Area No. 1), was created as a special service district by the San Juan County Commissioners. An Administrative Control Board controls the Service Area. The Board's authority is derived from the County Commissioners, who have ultimate responsibility for the Service Area.

The accompanying statements of the Bluff Service Area have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The financial statements include all organizations, activities, and functions that comprise the Service Area. Component units are legally separate entities for which the Service Area (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the Service Area's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the Service Area. Using these criteria, Bluff Service Area is considered a component unit of San Juan County.

B. Government-Wide Financial Statements

The government-wide financial statements consist of the statement of net assets, the statement of revenues, expenses and changes in fund net assets and the statement of cash flows. The Service Area is considered a special-purpose government engaged only in business-type activities. It is classified as a proprietary fund type and operates as an enterprise fund. Enterprise funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that its costs to providing goods and services to the general public on a continuing basis, be financed or recovered primarily through user charges. The function of the Service Area is to provide water services to the population, which lives within the Service Area's boundaries. The financial statements of the Service Area consist only of an enterprise fund and neither fiduciary funds nor component units that are fiduciary in nature are included.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized in the period incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Capital Assets

Capital assets, which include, land, buildings/improvements, water system/improvements, and equipment are reported in the government-wide financial statements. Capital assets, are defined by the Service Area, as an asset with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. When capital assets are disposed, the cost and applicable accumulated depreciation are removed and the resulting gain or loss is recorded in operations. Buildings, water system, and equipment of the Service Area are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings/Improvements	7 - 40 years
Water System/Improvements	7 - 40 years
Equipment	3 - 5 years

E. Budgetary Data

Budgets are presented on the accrual basis for proprietary funds. All annual appropriations lapse at fiscal year end. The following procedures are used in establishing the budgetary data reflected in the financial statements.

- 1) During November of each year, the Service Area Treasurer submits to the Board a proposed operating budget for the next fiscal year commencing January 1. This budget includes proposed expenditures and the means of financing them. Included also is a final budget for the current year ending December 31.
- 2) Copies of the proposed budget are made available for public inspection and by review of the public in the Service Area.
- 3) A public hearing is held prior to December 31 at which time the budget is legally adopted by resolution of the Board after obtaining public input. If the Service Area exceeds the certified tax rate, the budget is adjusted when data is available to set the rates.
- 4) Once adopted, the budget can be amended by subsequent Board action. The Board can approve reductions in appropriations, but increases in appropriations by fund require a public hearing prior to amending the budget. In accordance with Utah State law, interim adjustments may be made by the administrative transfer of money from one appropriation to another within any given fund.
- 5) No interim adjustments in estimated revenue and appropriations during the year ended December 31, 2005, have been included in the final budget approved by the Board, as presented in the financial statements.
- 6) Expenditures may not legally exceed budgeted appropriations at the fund level.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

F. **Deposits and Investments**

The Service Area's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of six months or less from the date of acquisition. Investments are reported at fair value.

G. **Accounts Receivable**

Accounts receivable arise from charges to individual Service Area customers billed and uncollected at the end of the fiscal year for water services.

H. **Compensated Absences**

There were no employees of the Service Area who at year-end had any payroll benefits to accrue for compensated absences.

I. **Inventories and Prepaids**

Inventory of supplies maintained by the Service Area is stated at cost. The inventory consists of pipes, fittings and parts used in the operation of the Service Area. Inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting period and are recorded as prepaid items in the government-wide financial statements.

J. **Net Assets**

Net assets represent the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their uses by Service Area legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

K. **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2. DEPOSITS AND INVESTMENTS

Deposits and investments for the Service Area are governed by the Utah Money Management Act (Utah Code, Title 51, Chapter 7) and rules of the State of Utah Money Management Council.

The Service Area follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Service Area funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

The Service Area maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the fund financial statements as cash and investments. Income from the investment of pooled cash is allocated based on each fund's portion of the pool.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Service Area's deposits may not be returned to it. The Service Area does not have a formal deposit policy for custodial credit risk. At December 31, 2005, the Service Area's bank balance of cash on deposit was \$136,769 and of this amount \$126,518 was insured.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the Service Area and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the Service Area to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

2. DEPOSITS AND INVESTMENTS (Continued)

As of December 31, 2005, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
Wells Fargo Bank/ Bank Certificates	\$ 49,281	\$ 49,281			
Zions First National Bank/ Bank Certificates	26,518		\$ 26,518		
Total Investments	<u>\$ 75,799</u>	<u>\$ 49,281</u>	<u>\$ 26,518</u>	<u>\$...</u>	<u>\$...</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Service Area manages this risk in part by investing in certificates of deposit. The Service Area also manages its exposure to fair value loss arising from increasing interest rates by complying with the State's Money Management Act. Section 51-7-11 of the Act which requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptance, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Service Area has not adopted a formal policy with regards to credit risk on investments but the Service Area informally follows the policy for reducing its exposure to credit risk by complying with the State's Money Management Act as previously discussed.

2. DEPOSITS AND INVESTMENTS (Continued)

At December 31, 2005, the Service Area had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
Bank Certificates of Deposit	\$ 75,799				\$ 75,799
Total	\$ 75,799	\$...	\$...	\$...	\$ 75,799

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Service Area's informal policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Service Area will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Service Area does not have a formal policy for custodial credit risk. As of December 31, 2005, the Service Area had \$75,799 invested in the bank Certificates of Deposit and was held by them.

3. RISK MANAGEMENT

The Service Area is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. To more economically cover these liabilities, they joined together with other cities and governmental entities to form a public entity risk pool that operates as a common risk management and insurance program. The Service Area pays an annual premium to the risk management pool for its third party liability insurance coverage. The agreement forming the risk management pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial company at various levels of risk.

4. **CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	<u>\$ 39,300</u>	<u></u>	<u></u>	<u>\$ 39,300</u>
 Total capital assets not being depreciated	<u>\$ 39,300</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 39,300</u>
Capital assets being depreciated:				
Buildings/Improvements	<u>\$ 628,590</u>			<u>\$ 628,590</u>
Water System/Improvements	<u>1,431,103</u>			<u>1,431,103</u>
Equipment	<u>18,849</u>	<u>\$ 4,430</u>	<u></u>	<u>23,279</u>
 Total capital assets being depreciated	<u>\$ 2,078,542</u>	<u>\$ 4,430</u>	<u>\$...</u>	<u>\$ 2,082,972</u>
Less accumulated depreciation for:				
Buildings/Improvements	<u>\$ 83,378</u>	<u>\$ 14,971</u>		<u>\$ 98,349</u>
Water System/Improvements	<u>432,451</u>	<u>43,502</u>		<u>475,953</u>
Equipment	<u>4,475</u>	<u>2,819</u>		<u>7,294</u>
 Total accumulated depreciation	<u>\$ 520,304</u>	<u>\$ 61,292</u>	<u>\$...</u>	<u>\$ 581,596</u>
 Total capital assets, being depreciated, net	<u>\$ 1,558,238</u>	<u>\$ (56,862)</u>	<u>\$...</u>	<u>\$ 1,501,376</u>
 Business-type activities capital assets, net	<u><u>\$ 1,597,538</u></u>	<u><u>\$ (56,862)</u></u>	<u><u>\$...</u></u>	<u><u>\$ 1,540,676</u></u>

5. LONG-TERM DEBT

Annual debt service requirements to maturity for revenue bonds and notes payable are as follows:

Year Ending December 31	Business-type Activities				
	Revenue Bonds		Notes Payable		Total Principal and Interest
	Principal	Interest	Principal	Interest	
2006	\$ 10,275	\$ 652	\$ 1,078	\$ 1,641	\$ 13,646
2007	2,205	588	631	1,613	5,037
2008	2,271	522	660	1,584	5,037
2009	2,339	454	690	1,554	5,037
2010	2,409	383	722	1,522	5,036
2011-2015	10,538	789	4,137	7,083	22,547
2016-2020			5,178	6,042	11,220
2021-2025			6,482	4,738	11,220
2026-2030			8,114	3,106	11,220
2031-2035			9,525	1,066	10,591
	<u>\$ 30,037</u>	<u>\$ 3,388</u>	<u>\$ 37,217</u>	<u>\$ 29,949</u>	<u>\$ 100,591</u>

Revenue Bond – Revenue bonds payable at December 31, 2005, with their outstanding balance are comprised of the following two issues.

The Service Area issued Water Revenue Bonds, dated March 10, 1975, in the Service Area's name for \$171,000, bearing an interest rate of zero percent, payable over 34 years. The purpose is to finance all or a portion of the costs of the acquisition, construction and improvement of a water facility.

The Service Area issued Water Revenue Bonds, Series 1996B dated March 18, 1996, in the Service Area's name for \$40,000, bearing an interest rate of three percent, payable over 18 years. The purpose is to finance all or a portion of the costs of a water facility.

5. **LONG-TERM DEBT (Continued)**

Notes Payable – Notes payable at December 31, 2005, with their outstanding balance are comprised of the following two items.

The Service Area issued a Rural Development Loan, dated March 18, 1996, in the Service Area's name for \$41,400, bearing an interest rate of four and one-half percent, payable over 39 years. Monthly payments of \$187, including interest are required to be paid until the debt is paid in full.

The Service Area received funds from the Department of Natural Resources, Utah Energy Office. The loan was provided to make energy improvements in the Community Center. The original loan contract was for \$ 10,000, but the Service Area only used and requested \$ 5,900. The loan bears an interest rate of zero percent, with payments due every six months in the amount of \$ 775, until the loan is paid off.

Change in long-term liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Bonds/Notes Payable Beginning Balance	New Additions	Reductions	Bonds/Notes Payable Ending Balance	Due Within One Year
Business-Type Activities:					
Bonds Payable:					
Water Revenue Bonds	\$ 20,035		\$ 11,900	\$ 8,135	\$ 8,135
Water Revenue Bonds - Series 1996B	23,980		2,078	21,902	2,140
Notes Payable:					
Rural Development Loan	37,019		276	36,743	603
Utah Energy Office	2,024		1,550	474	475
Totals	\$ 83,058	\$...	\$ 15,804	\$ 67,254	\$ 11,353